

# LATIN AMERICAN REPORT

IMPORTANT: THE MIDDLE-AMERICAS

OCTOBER 1958

50c

MEXICO How an international organization functions at the private level to smooth the course of relations between two neighboring nations.

PEOPLE An unofficial management "doctor" administers to the ills of sick national economies in Latin America.

TRAVEL North American "expatriates" actively pursue the arts in pleasant, unhurried, uncostly surroundings on Lake Chapala's shores.

HEMISPHERE An economist analyzes the relationship of inflation to development growth in Latin America.



## THE PROFITABLE PARTNERSHIP



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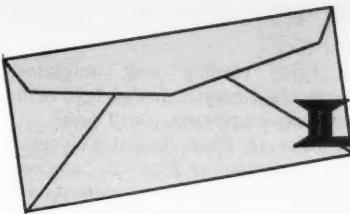
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## LETTERS..

### In Defense Of "Pepe"

Dear Sir:

Three of your four sketches on the new Central American presidents in the August *Latin American Report* were informative and interesting. That on President Mario Echandi of Costa Rica, however, should have borne the writer's name, since it was more editorial than factual. Whatever President Echandi's qualities, there was no justification for an unsigned attack on former president José Figueres.

Figueres' administration "had carried Costa Rica far along the road of state socialism," the nameless author states. State socialism is an ambiguous term that can mean almost anything to the left of Peron. Referred to as a "problem," it becomes a smear.

(*The word-sketch of President Echandi and his plans was not in any way intended as an attack on former President Figueres. The only reason that the Figueres Administration was brought into the article at all, was as background to point up the policy changes that President Echandi proposes to make. We submit that Figueres during his Administration did a great deal of good for Costa Rica, though we may not necessarily approve of everything he did, or of the manner in which he went about it.—Editor*)

And as for Calderon Guardia, "who (sic) 'Pepe' Figueres had labeled traitor and run out of the country in 1948," it is worth noting that quite a few other Costa Ricans joined Figueres in the opinion—which the nameless author apparently considers despicable (*We believe Mr. Jain is reading hidden meanings into this chance remark. We bear no torch for Calderon Guardia and no such implication was expressed or intended.—Editor*) that keeping the presidency after he had been voted out was traitorous on the part of Calderon Guardia. Figueres did not run the defeated president out of the country by himself, as is intimated. The author neglected to mention, too, that in order to force out Calderon Guardia, Figueres and his followers

had to defeat forces aided by the late dictator Anastasio Somoza of Nicaragua, dictator Rafael Trujillo of the Dominican Republic, and the Communists. A fine group of enemies!

Incidentally, although the author states that Figueres' abolishment of the army "was, in effect, a mere change of name, resulting in a Guardia Civil of colossal proportions," the resulting "colossal" force had little effect on the two Calderonista invasions from Nicaragua, and Figueres had to appeal to the OAS for help.

(*Settling disputes and maintaining the territorial integrity of Hemispheric neighbors is a responsibility that the OAS has assumed—a responsibility that the organization has shouldered admirably, and one that we hope will eliminate the need for countries like Costa Rica to spend \$2 million annually for purchase of armaments. We believe this is the thinking that underlies President Echandi's vow "to turn arms into plowshares."—Editor*)

And Figueres, he continues, "delighted in needling the dictators." Imagine—showing opposition to dictators when they had done nothing but try to overthrow his country! Does the author mean that President Echandi will show no such attitude?

(*The article at this point and in this respect quotes President Echandi as proclaiming "a policy of peaceful coexistence with other countries, regardless of their forms of government."—Editor*)

To continue. On his own authority and without quoting anybody, the nameless author charges Figueres' regime with "wasting public money on hydro-electric projects that could have been handled by private capital." If President Echandi made the charge, he should be quoted. It is shoddy journalism for an author to make such an unbacked and unprovable statement on his own, just as it is to make the unbacked statement that President Echandi is "putting Costa Rica back on a business-like footing"

—implying that the previous president, Figueres, was at best, an inefficient bungler.

(*We believe that if Mr. Jain reads the article again he will note that the charge of wasting public money on hydro-electric projects was made not by the "nameless author" but that it was attributed directly to President Echandi, as follows: "Echandi assailed Figueres' regime for wasting public money on hydro-electric projects . . ." As for the "business-like footing" phraseology, we concede that this was an unfortunate choice of words, with due apologies to Ex-President Figueres. Perhaps a more apt expression of the author's intended meaning would have been ". . . a footing more in accord with the private enterprise system." —Editor*)

There are other examples, but these suffice for illustration. Such an article might be acceptable in a publication of Echandi's National Union Party, written by one of his campaign managers, but it is poor stuff to appear in a reputable magazine under the guise of factual reporting. I doubt that Señor Echandi himself would care for it.

ROBERT J. JAIN  
Denver, Colorado

*Editor's Note: Mr. Jain's letter may serve as a good argument in favor of by-lines, as discussed and put before the readers by the publisher in his editorial in the September issue of LATIN AMERICAN REPORT.*

### Collection Of Mexicana

Dear Sir:

Your July 1958 issue (of LATIN AMERICAN REPORT) featuring "Your Trip to Mexico" was most interesting. A copy of that issue was loaned to us by a friend and since we must return it we would like to replace it in our collection of Mexicana. We need an extra copy for other friends of ours who are planning to accompany us to Mexico this winter. So . . . please send me two copies of the July issue . . .

BLAIR FOSTER  
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### Omitted Routes To Mexico

Dear Sir:

I have received the LATIN AMERICAN REPORT magazine, July, 1958, compliments of Sr. José Muguerza, President, International Good Neighbor Council, and I find the magazine interesting.

However, if I may be so bold to call to your attention on page 16, "Four Roads to Mexico," your author failed to show on the map two of the principal routes, one leading from Reynosa to Monterrey—the other from Matamoros to Ciudad Victoria to Mexico City, the latter being, I might add, the shortest route from the United States border to Mexico City by several hundred miles. From Reynosa to Mexico City it is about 675 miles, while from Laredo it is 761 miles, Eagle Pass 887, Nogales 1,115, etc.

Since we at our combined ports of entry (7) are responsible for a considerable amount of tourist business, we certainly like to keep the record straight. I do note that the author mentions the McAllen-Reynosa port as well as the Brownsville-Matamoros port, briefly, in his article. It should be further pointed out that both the Reynosa and Matamoros routes leading to the interior of Mexico are now on the Pan American Highway system, and it is not necessary to journey clear to Ciudad Victoria to reach the Pan American Highway.

On the mileage chart on page 20, with the exception of Denver and Los Angeles, the nearest route to Mexico City is via Reynosa or Matamoros. I also note that you refer to the Reynosa-Mazatlan route. Actually, this is only a part of the route as it begins in Matamoros where the kilometer readings start. There is a splendid highway now from Matamoros to Reynosa.

Please do not think I am being critical, but I felt you would like to have this information.

JACK H. DRAKE  
Lower Rio Grande Valley  
Chamber of Commerce  
Weslaco, Texas

*Editor's Notes The alternate approaches to Mexico's east side Highway were left off the above-mentioned stylized map for purposes of keeping it simple and uncomplicated, but these roads were brought up in the text of the article. The slight to the Lower Rio Grande Valley port of entry cities was not intentional.*

### Very Important Oversight

Dear Sir:

I enjoy reading your magazine, month after month. I also believe in constructive criticism, don't you?

I refer to your August "enigma" issue, "Calendar of Festivals" section. Your editor slighted an important date for millions of nationals of a most orderly and progressive country: August 16th, Dominican Republic Independence Day!

It's hardly believable that the 95th anniversary of independence from Spain be unworthy of notice by a publication titled "Latin American Report". You must be an expert in Latin American affairs and therefore you should know very well that the Dominican Republic has been progressing constantly since August 16, 1930, fortunate date when Generalissimo Rafael Leonidas Trujillo accepted the Presidency offered to him by his countrymen, as the only logical step toward salvation.

In short time, Generalissimo Trujillo's sound and patriotic policy leveled the economy of his country, paid off all foreign and national debts and started off on a path of prosperity and well-being, at such speed that today, after 27 years of his leadership, the Caribbean nation stands way in front in this Hemisphere, with hundreds of hospitals, modern super highway systems, irrigation facilities, up-to-date, low-cost housing, thousands of schools, sound agro-industry, a solid currency on a par with the United States dollar and, above all, a happy and work-minded conglomeration of loyal Dominicans.

Last August 16th the Dominican Government inaugurated a five-year plan worth \$650 million dollars for the further improvement of the nation. Some 250,000 Dominicans publicly demonstrated their joy and paid homage to their Benefactor. That's Latin American reporting!

CONSUELO AYARZA  
Woodside, New York

*Editor's Note: Enough said, we believe.*

### Seen In Lima

Dear Sir:

I have had the fortunate occasion to read one of the issues of your wonderful magazine. As I would like to continue reading them, I would thank you to send me details about how I may get a subscription . . .

CESAR FERNANDEZ DAVILA  
Compañía Minera  
Cuprifica del Centro  
Lima, Peru

## SOME COMPLEXITIES OF ECONOMIC THERAPY

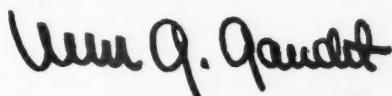
The economic problems that beset the various Latin American countries are many and complex. On the surface these are fairly easy to diagnose. From country to country they run the gamut of the economist's professional vocabulary: inflation, unfavorable balance of exchange, shortage of development capital, lack of technical knowhow, unstable commodity prices, one-crop economies, stubborn nationalistic extremes.

It is easy to point to what is wrong. It is harder to prescribe an effective and acceptable cure. Many of the economic ills of the other American republics stem from internal economic conditions. The United States and policies this nation has adhered to in the past, have been blamed for contributing to a worsening of certain of these problems. Undoubtedly, the United States, if it took the interest and chose to make the effort, could help to ease the economic burdens of many of its less fortunate neighbors—might, in fact, effect some important economic cures. But not all the burden rests with the United States. Other of the Americas will have to make some policy revisions too.

In the waning days of September the Foreign Ministers of the American nations met in Washington to tackle these problems. The meeting was informal and head to head, and diplomatic niceties were thrown out the window. Although the Ministerial get-together was designed to lay the groundwork for further study and further talks, and no major decisions were anticipated immediately, the conference already is being hailed as one of the most productive in this realm in recent history of the Americas.

One important indication pointed up by this conference is the apparent dawning realization on the part of each nation that together we stand, strong and healthy—divided, one by one we fall. Important is the realization of this truth on the part of the United States, no less than among its Latin neighbors.

Certain of the economic problems confronting the other American republics, and potential cures for these ills, are analyzed in two articles appearing in this issue of *LATIN AMERICAN REPORT*. One deals with the work of Dr. Julius Klein, and the Klein-Saks missions for the curing of sick national economies. The second analyzes the effects of inflation on development growth and the Latin American economies. It has been our purpose here to present to the reader a fairly definitive picture of some of the problems involved in caring for the economic ills of the Hemisphere.



PUBLISHER

MEMBER, INTER AMERICAN  
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**THIS MONTH'S COVER:** In the village of Chapala, Mexico, beside the lake of the same name, native women stroll along high, stone walls on the road that leads to Ajijic, and a man on horseback stops to chat in the cool of morning that precedes a hot day in May. (Color Photo by Norman Thomas).

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# LATIN AMERICAN REPORT

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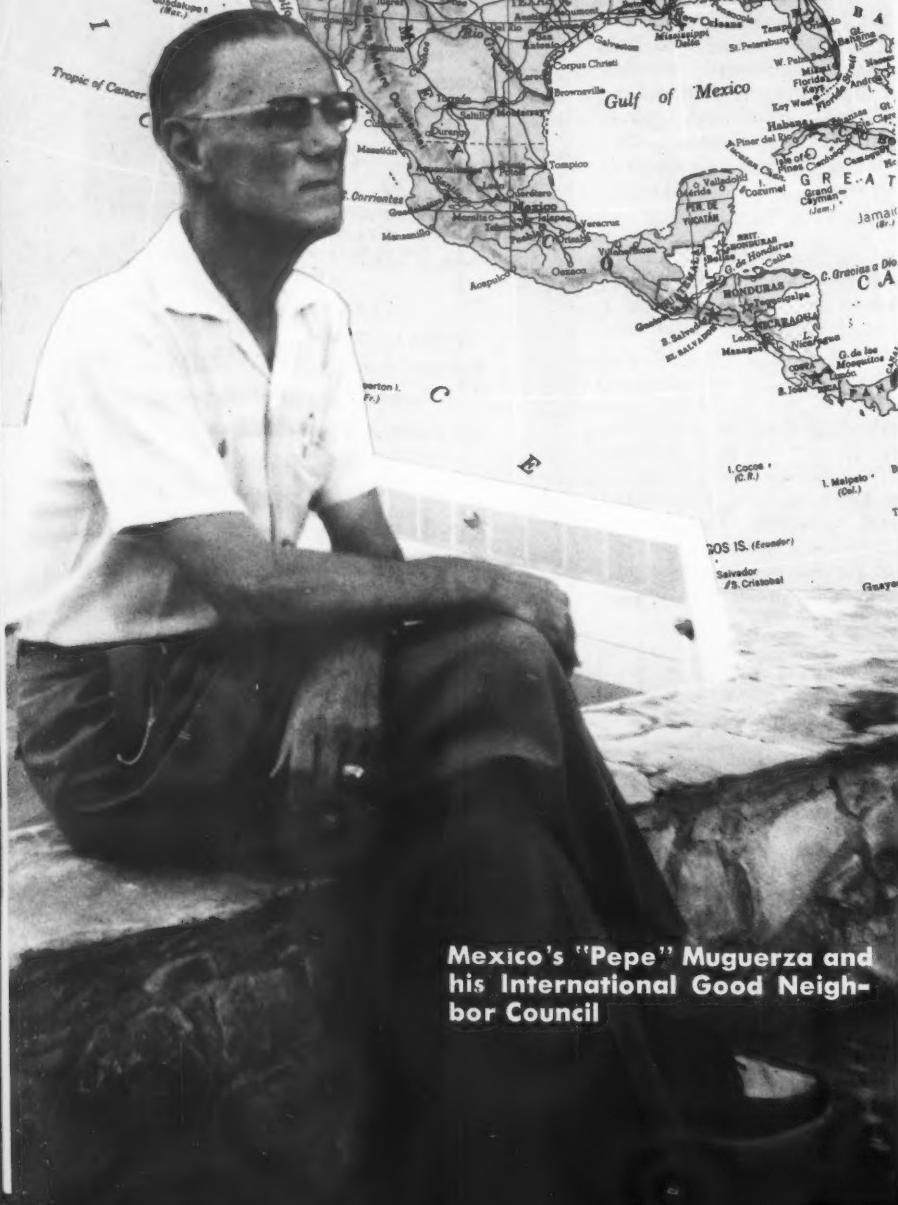
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# EXPERIMENT IN INTERNATIONAL RELATIONS

at the unofficial level



On a deathly hot day in August of 1956, a slight, greying man in his early fifties sat at a desk in an office in Edificio González in Monterrey, Mexico, and listened intently to the first radio reports confirming the disastrous flood at the port city of Tampico. His name was José F. Muguerza. But his office staff, if one of them interrupted his vigil, referred to him familiarly as "Pepe."

A worried frown distorted the quiet, thin face of Pepe Muguerza as reports continued to pour in over the air, making known the tragic extent of the Tampico disaster. But at the same time, Muguerza was nervously awaiting another report—a report from across the border to the north. When it came, in the form of a telegram on a yellow slip of paper, Pepe Muguerza sprang into action with decisive force belying his mild appearance.

He called a secretary and quickly dictated the following message to Adolfo Ruiz Cortines, President of the Republic of Mexico:

"If you will make the request, the Government of the United States is prepared to send units of the United States Navy to the aid of Tampico."

Pepe Muguerza spoke with the authority of sure knowledge. As president of the International Good Neighbor Council, he had already contacted his co-workers in Texas, and they in turn had approached Washington. He had been told that if Mexico made the request, the United States was ready to send the Navy to the assistance of flood-ravaged Tampico. Earlier in the emergency, Pepe, as a di-

rector of American Airlines of Mexico, already had arranged to have a DC-4 freighter, loaded with supplies, flown into the disaster area.

Pepe, as he is known to business executives and shoe-shine boys alike, is proud of what then took place. Ruiz Cortines made the request. The United States Navy moved in; and because of this action, hundreds, some say thousands, of lives were saved. The U. S. Navy became symbol of a great helping hand, and all through Mexico the acclaim was loud and sincere. Even today, years later, the name of Vice Admiral Milton E. Miles, who commanded the Navy force, is held in high esteem throughout Mexico.

"Sending of the U. S. Navy to Tampico," Pepe says, "and the manner in which the task unit handled the disaster, has done more than any other recent act to make Mexicans everywhere realize the true friendship of their neighbors to the north."

How was it that Pepe Muguerza, a private business executive of Monterrey, Mexico, became involved in an international incident of such importance as the dispatching of the U. S. Navy to the aid of another nation?

It goes back to a day in October, 1954, when the Governor of the State of Nuevo León, in which the city of Monterrey is located, asked him to attend a meeting of representatives of the Mexican States of Tamaulipas, Coahuila, Chihuahua, and the U.S.A. State of Texas.

The idea of the meeting had been suggested by the Good Neighbor Commission of the State of Texas. This Commission originally had been formed for the purpose of solving Mexican-American problems within the State of Texas, itself. All members of this Commission, with the exception of the executive secretary, served without pay and were appointed by the Governor of Texas. It was when the group realized its limitations in being able to work only within the borders of the state, that the idea was born for an international organization which could transcend state and national boundaries alike.

**IN PRIVATE HANDS.** That was occasion for the preliminary meeting which was being held in Monterrey that October day in 1954. The idea of a body to promote better relations between North Americans and Mexicans was so enthusiastically received by the group that it was decided at that very first meeting to form the organization on an international level. It would be called the International Good Neighbor Council. It also was

agreed that, while the organization would work with government and official bodies, it would have no official connection with any government or agency thereof, and that all operating funds would be solicited and subscribed by private sources.

The skeleton organization was drawn up. Muguerza was elected president; Glenn Garrett, the executive secretary of the Texas Commission, was elected vice president in charge of the United States Division; and Lic. Emilio Villareal Guerra of Ciudad Victoria, was named vice president in charge of the Mexican Division. All three officials serve without remuneration.

Since the newly-formed organization was to operate without official support, this meant enlisting the support of new members from both sides of the Rio Grande—people and groups who realized the importance of better relations between these two neighboring countries. Fortunately for the group, the idea quickly found favor in many quarters. The operation was without funds at the outset. Progress was necessarily slow because of this. But little by little more members were added, until the North American Division of the Council today boasts more than 350 members. The Mexican Division has a like number. It has penetrated to the heart of Mexico, to the capital city itself, where a Section has now been formed, headed by Ricardo Estrada Berg.

Despite this successful growth, the Council does not intend to stand still. Its aim is to spread out into Arizona, New Mexico, California, and perhaps Louisiana and Florida. The Council's leaders visualize the possibility of an ultimate move to include the entire United States, and in turn, all of the Americas. The aims of such an organization would change from those of merely bettering United States-Mexican relations, to embrace an all-inclusive Hemispheric relations program. Pepe Muguerza knows that this would be a difficult feat to pull off; but he feels it can be done and that it will be successful—so long as it remains in private hands, and without government control or interference.

"Such an organization," Pepe says, "must be an expression of the people. If this expression of good will and understanding emanates from all of the people of the Americas, then it is bound to communicate itself to top circles, and in turn, many problems may be solved. One of the real problems in the Americas is that in too many instances governments do not seem to recognize that their peoples are actually hungry for friendly, un-



derstanding and harmonious relations with the other peoples of the Americas."

**GOOD WORKS.** Muguerza, of course, is aware that differences are bound to arise, but he insists that all problems can be resolved by understanding among the various peoples. Since problems and situations arise from one of three general categories of causes, three separate committees have been set up within the framework of the Council to deal with each classification. These three are: 1) border problems; 2) education; and, 3) health and social welfare.

Muguerza recalls that shortly after the Good Neighbor Council was formed, he received a report that a *bracero* (Mexican farm laborer working in the United States) had been chained and beaten in a Del Rio, Texas prison. The report had been printed widely in northern Mexico newspapers. Pepe investigated the incident and found the story to be completely false. He then hastened to make public his findings, refuting the charges and restoring harmony to international relations in the border area.

"Such things as these," Pepe declares, "may not seem important issues; but had they gone unchallenged they may have reached such proportions as ultimately to have engulfed us all."

Sometimes, however, a real problem arises. For example, there had long been a tacit understanding between officials on both sides of the Rio Grande concerning trucks operating back and forth across the border. To eliminate a great deal of red tape, it was accepted procedure on the Texas side for Mexican trucks to be allowed to penetrate certain distances into Texas territory without additional licenses, and in turn, Texas trucks could enter Mexico under the same reciprocal terms. Then something went wrong, and the understanding came abruptly to an end. Texas trucks were stopped in Mexico, and then Mexican trucks were blocked from Texas.

Daily the situation worsened, and the press on either side took up the issue. Pepe Muguerza put his Good Neighbor Council into action. On the Texas side the Council took the matter up with the Governor. Mexican members of the Council discussed the problem with governors of the various Mexican border States. As a result of these discussions, the word was passed down that Texas trucks again could roll into Mexico, and Mexican trucks could cross the border into Texas once more. The important point was that the entire affair was successfully settled by discussions at the private level, rather than at the official level.

**UNDERSTANDING.** The great battle that has to be won, as Pepe Muguerza sees it, is the fight against ignorance. And by ignorance, Pepe does not mean merely lack of book learning, but lack of understanding on the part of both North Americans and Latin Americans.

"The average Mexican who has been to the United States, and has gotten to know the American people, never concerns himself with all of these wild stories," Pepe points out, "and the average North American who has come to know the other Americas has a different concept of them as compared to the one who does not know Latin America."

"It is incumbent," he insists, "that everything possible be done, first to bring the American countries to know one another, and when they do get to know each other, then problems which seem insurmountable today will be forgotten tomorrow."

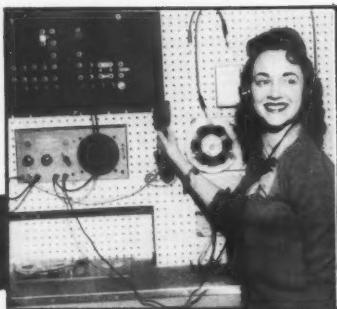
Muguerza is a bug on the subject of languages. "Spanish should be taught in the kindergarten in the United States," he maintains, "and if not there, certainly in the first grade and from there on. And English should be a must in Latin American schools. All of the Americas should become bi-lingual."

Keep in mind that all of this comes from a Mexican citizen—from a

Mexican who is working tirelessly toward these ends without any hope of personal reward. Pepe, himself, is in no need of any monetary reward. His father was one of the founders of the vast Carta Blanca brewing empire, one of the largest in the world. The very lack of pretension in the man belies his actual financial position. He owns a 100-acre ranch called "Palo Blanco," on a mountainside overlooking the city of Monterrey, and yet he moves around the ranch as if indeed he were one of the hired help, and not the owner. In his office, on the streets of Monterrey, on his ranch—everyone affectionately calls him by the familiar "Pepe."

The Muguerza idea of civic obligation—of responsibility to their people—however, did not originate with Pepe. His father was a man cognizant of the importance of good health, and toward this end he founded in Monterrey what was the first truly modern hospital in all of northern Mexico. All his life, the younger Pepe has been active in civic affairs. Before he took on the non-paying job of president of the International Good Neighbor Council, he served as chairman of the Tourist Commission for the State of Nuevo León. Prior to that, he was president of the Northern Hotel Association, and remains today as honorary head of that organization.

As though he had not already assumed enough civic responsibility, Pepe took on the chairmanship of the Mexican-North American Institute of Cultural Relations. Even though he is not a writer, nor does he have any newspaper affiliations, he has been named a member of the Texas Editorial Association.



La Sra. Mississippi en el laboratorio para la pronunciación.

## Aprenda INGLES

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**THE REWARD.** For the most part, these positions are not mere honorary titles. Each one represents hours and days of arduous work. Consider the International Good Neighbor Council, alone. Since that first meeting in Monterrey, semi-annual meetings have been held in Torreón, Durango, San Luis Potosí, Ciudad Victoria, Mexico, and at McAllen and San Antonio, Texas. The next meeting comes up at El Paso, Texas, October 30. These meetings involve not only much time and hard work for Council members, but considerable personal expense as well. The Council does not provide for expense accounts, and each delegate has to foot his own bill.

One thing that keeps Pepe Muguerza going is that he knows he is not alone in his efforts to bring about more harmonious relations between his people and their northern neighbors. At home, his wife and four

daughters, together with 12 grandchildren, provide an unflagging source of inspiration and encouragement, urging him on.

On both sides of the border there are many others equally as enthusiastic as Pepe, all of them working toward the end that the International Good Neighbor Council shall thrive and expand. Notable among these boosters are: Fred H. Husbands, manager of the West Texas Chamber of Commerce; Jack H. Drake, general

manager of the Lower Rio Grande Valley Chamber of Commerce; Mrs. Gladys Coy of San Antonio, and Joe Pate of Hidalgo. Below the border are Guanajuato's Ricardo Orozco, Luis Poyo-Skillin of Mexico City, Roberto Blum of Durango, Gral. Jaime Quiñones of Ciudad Acuña, Miguel A. Olea, Jr. of Chihuahua, Rafael del Rio of Torreón. These are some of the men responsible for the fact that at the last Council meeting in McAllen, Texas, more than 200 persons

attended, each of whom paid his own way.

Despite this concrete showing of interest, Pepe Muguerza says that he will not be happy unless upwards of 300 delegates turn out for the next meeting, to be held at El Paso.

"Some day," Pepe says with confidence, "the International Good Neighbor Council will have a membership of 5,000 people—and that will be reward enough for me and my work."

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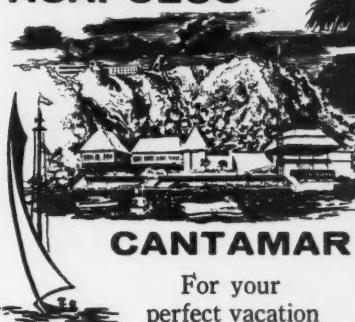
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# Has Inflation Slowed Dev Growth?



economic analyst explores effects of  
inflation on economic development in  
the hemisphere's underdeveloped nations

**EDITOR'S NOTE:** Inflation is a problem that in these times has become almost world-wide. But heading the United Nations' list of high-inflation countries are two Latin American nations. Two other Latin American republics rank among the top six on this list.

From this it would seem that inflation may be an especially acute problem among the underdeveloped nations of this Hemisphere. But is inflation so serious a problem as we have come to believe it? What causes inflation? What effects does inflation have on the economic development of fast-growing countries? On the risk coefficients for private investment? Must inflation, if it is permitted to go unchecked, lead inevitably to bankruptcy?

All of these, and many more, are questions that deserve close scrutiny and consideration. Making an authoritative analysis of inflation and its effects in Latin America, for *LATIN AMERICAN REPORT*, is Dr. Pedro Carlos Maximo Teichert, professor of economics at the University of Mississippi:

Dr. Teichert is a scholar of Latin American economics and a recognized spokesman in the field of economics and international trade. He has written and lectured widely on Latin America—particularly on the development of the several national economies.

If anything is characteristic of the post World War II period, it is inflation. Almost no nation has been able to avoid its distorting effects. Latin America is no exception.

But since all nations of the world have inflation, the concept loses significance as an analytical tool in the measurement of economic growth, for which it formally was applied. Traditionally a nation that had inflation was assumed to be in bad economic shape. While this still holds true in the sense that inflation means trouble of one sort or another—an

# Development in Latin America



excess of it actually retarding growth—the important consideration now is economic development. This is frequently accompanied by inflation.

Today the primary consideration is the yearly increase of the rate of growth and development. Of only secondary importance is the degree of inflation that might result from it.

If the problem is so stated, then the whole question of inflation appears in a different light. Maybe inflation is necessary or unavoidable in order to achieve rapid economic growth in undeveloped areas, since it probably is the result of rapid growth itself. If this is true, then how much inflation is permissible before a country runs into serious trouble?

A study of inflation in the Latin American countries shows that those countries in which the rates of inflation have been highest, frequently have been developing at a more rapid pace than their less inflationary neighbors. Some of these have been the fastest growing countries in the Western Hemisphere. Generally speaking, these same countries also happen to be the largest republics, and sometimes the ones best developed at the outset. Inflation today actually is perhaps an indication of rapid growth rather than a sign of decay.

Taking the relatively stable United States economy as a basis for comparison, it is surprising to note that while ten Latin American republics had more inflation than the United States, another ten countries had less. (Data is not available for the twenty-first Latin American country, Haiti, also a low inflation republic).

**A FALSE PREMISE.** Actually, there existed quite a spread in the rate of inflation among the ten high inflation countries listed. In some nations prices during the 1946-56 decade doubled, while in three countries prices increased 25 times. A maximum of 119 times was reached in Bolivia. Among the countries with less inflation than the United States, one had

almost no inflation at all, and two others had less than one third the United States rate.

It seems to be frequently implied in discussions of inflation, that those countries with the lowest rates of inflation are developing faster than those with the more rapidly rising price levels. But statistical evidence fails to bear out this contention. While the Latin American nations could be divided into low, moderate, and high inflation classifications, there would not necessarily be any correlation between these groupings and similar groupings based on real per capita rate of growth. Such a classification does not consider many other fundamental factors which have a bearing on growth and development.

As a matter of fact, rapidly developing countries are found in each of the three groups. On the other hand, not all high inflation countries are stationary, or actually deteriorating in their development. The accompanying Table I groups the 20 Latin American republics according to their annual average rate of inflation for the 1946-56 period. Table II gives an indication of real per capita economic growth for the 1945-55 period.

As Table II indicates, per capita income declined only in one of the listed republics—in Panama, the Latin American nation which had almost no inflation at all. On the other hand, both Argentina and Chile had moderate rates of growth though the latter is listed among the high inflation countries, while Argentina heads the moderate inflation countries. Furthermore, it is in the moderate group that substantial rates of growth are found, frequently higher than in the United States.

When industrial production and capital investments are analyzed, Argentina, Chile, and Brazil, as well as Mexico make a good showing, though it cannot be denied that some of the low inflation countries have the area's highest rates of growth and invest-

ment. But it must not be forgotten that most of the latter are small republics starting their development from a very low level when measured in absolute terms. Venezuela is an exception among the low inflation group because of its favorable position as a substantial supplier of the world's petroleum. Panama on the other hand, the lowest inflation country in Latin America, had a negative rate of growth. The same is probably true for Haiti, which together with Bolivia—an excessively high inflation country—are considered to be among the poorest nations of the Western Hemisphere.

**GROWTH RATES.** There exists no doubt that in general the low inflation countries are not necessarily the wealthiest Latin American republics. Quite to the contrary, most of them have the lowest per capita incomes of the area. They are also the least industrialized nations. This is even true for Venezuela, when it is compared with such relatively high inflation countries as Argentina, Brazil, and Chile, or to a lesser degree, Mexico.

While, prior to World War II, per capita manufacturing output was roughly \$121 in Argentina and \$108 in Uruguay, Chile's figure was only \$40, Brazil's \$34, and Venezuela followed with only \$17 per capita, before reaping the fruits of its oil bonanza. Since both Argentina's and Venezuela's population grew at about the same rate, Venezuela would have had to increase its manufacturing output by roughly 600 percent between 1940 and 1954, in order to catch up with Argentina.

This means that Venezuela's yearly per capita industrial output during the 1939-54 period had to grow by approximately 40 percent. But the average annual increase in total industrial production only advanced by 15 percent during Venezuela's most rapid period of growth, 1945-55. Of course during the same period Argentina's

rate of industrial production also kept advancing, though at a much lower rate. Since Argentina started from a much higher plateau of industrial development and output, average yearly industrial production in Venezuela, in absolute terms, has actually not increased faster than in Argentina. This is true in spite of the benefits which Venezuela derived from the foreign financed oil boom.

This comparative analysis of growth rates and absolute growth between Argentina and Venezuela has been presented in order to indicate a frequent weakness of growth rate analysis. It must always be remembered that it makes a difference whether the growth rate of a small, underdeveloped nation, or of a country already industrialized, is under consideration.

It has been calculated, for instance, that given the long run yearly per capita rate of growth in the United States, of 2 percent, and assuming a slightly higher average rate of growth of 2.4 percent for all of Latin America, it would take 252 years for per capita income in Latin America to reach even one-third of the United States figure. The ratio of income between the United States and Latin America at the beginning of the calculations would be 1 to 8. That is, per capita income in Latin America in 1953 was one eighth of the United States figure. What holds true for United States and Latin America, of course, also applies to comparisons among the Latin American republics themselves.

**INFLATION EFFECTS.** From the foregoing, it might be tentatively concluded that the influence of inflation on growth and development is very subtle at best, and that except where it has run wild, it is impossible to measure accurately its impact on economic growth. To this can now be added, that even where inflation has been excessively high, as in Paraguay, Bolivia, and Chile, for instance, slow economic progress can frequently be attributed to political problems, which quite often have led to the introduction of restrictive economic controls and regulations, rather than to inflation itself. Of course the same is also true of moderate and low inflation countries where growth has been slow. In these cases economic development has frequently been hindered by government intervention in economic activity rather than by inflation.

It is only in this indirect sense that it could definitely be said that inflation, in the long run, might hinder development, or at least slow

the potential rate of growth, since it is with inflation and with controls that most of the twenty Latin American republics are growing. Yet it must be added that there are some republics which are actually growing faster than the United States, though they have higher rates of inflation than the latter, as well as an excessive amount of economic controls and regulations.

There seems to be no easily discernible long run effect of inflation on countries in which the price level rises at an annual average rate of 15 percent. Of the five Latin American republics that had rates higher than that, all but Brazil suffered from a retardation of economic growth. But even Argentina and Chile, whose per capita output actually declined rapidly after 1948-49—when it had reached an all-time peak—were able to show a 1.7 percent and 2 percent per capita rate of growth for the total period 1945-1955. This still compares very favorably with the historic 2 percent rate of improvement in living standards in the United States. For all of the Latin American area, available goods and services have increased by 3.6 percent yearly on a per capita basis during 1945-55. This would unquestionably be an excellent record of growth, even without inflation.

**INFLATION RISKS.** Where inflation has been larger than 15 percent a year, it seems to have retarded economic growth, or at least to have decreased the former rate of growth. For the nations with inflationary rates below 15 percent a year, no means has yet been devised to reliably measure the impact of inflation on development, since some of the moderate inflation republics have grown faster than their sister republics with almost no inflation at all. Also one of the republics with almost no inflation at all has actually decreased yearly per capita output over the decade under study.

The foregoing does not mean that too rapid a rate of inflation—even a moderate one—is not bound to create business uncertainty, and that normal relationships between prices become distorted as the latter rise. Inflation should be watched, particularly since economic growth depends on an environment in which plans for investments, production, and consumption can be made with some certainty of price stability. When inflation is unpredictable such certainty and security disappear. Nevertheless, it seems that in Latin America, business has always been successful in discounting the future rate of inflation. Traditionally excessive rates of profits make infla-

tion less of a risk for the Latin American business man than might be expected.

Finally, the widely held belief must be examined, according to which inflation, once started, becomes progressively more intense until bankruptcy follows. Such an assumption is of course not only an over-simplification, but actually contrary to facts. In none of the high inflation countries of Latin America do we observe a continuous increase in the percentage change of the average annual cost of living. Much less do we observe an increase followed by anything that would appear to signify bankruptcy or complete reform. There exists no general pattern of inflation nor a trend indicating that prices are going up or down continuously at the same rate. The rates actually change a good deal from year to year, some years being considerably above and some years below the average.

This characteristic of extreme fluctuation applies equally well to many of the high and medium, as well as low inflation countries, except that in the latter it stands to reason that the rate of inflation would demonstrate less violent fluctuations than the others. Furthermore, during 1946-56, in none of the Latin American republics has there been a really thorough-going monetary reform. The inflationary long run trend—particularly in the medium and high inflation countries—is downward.

**MONETARY EFFECTS.** In Latin America without doubt the immediate cause of inflation has been the large increase in money and credit, which in turn is the result of large government deficits and frequent borrowings by the commercial banks from the central banking authorities. The price level has risen whenever the money supply has been increased at a more rapid rate than real production of goods and services. When monetary expansion has been stopped or sufficiently decreased, inflation also has generally been halted.

In Latin America the government deficits have generally been the results of political pressures for the governments to spend—mostly for economic development purposes. Since these expenditures were frequently in excess of regular government resources, taxing by inflation has been the policy. Of course the real problem in a growing economy is to gear the increase in money to that in real production and services in any given period. This actually might require larger amounts of money to handle the growing volume of business and to keep prices stable. But it is only

**TABLE I**  
**MEASURES OF INFLATION INCREASE<sup>1</sup>**  
**Percent Average Annual Rise In Cost Of Living**  
**1945-1956**

Bolivia	63.0	United States	6.0
Paraguay	43.8	El Salvador	5.9
Chile	35.7	Venezuela	4.7
Argentina	19.8	Costa Rica	4.3
Brazil	15.4	Ecuador	3.5
Peru	12.4	Guatemala	3.3
Colombia	9.6	Honduras	2.9
Uruguay	9.1	Dominican Republic	1.9
Mexico	7.8	Cuba	1.4
Nicaragua	6.9	Panama	0.6

<sup>1</sup>Source: The Chase Manhattan Bank, Latin American Business Highlights

when business activity and output rise, that an increase in the money supply is justified if inflation is to be avoided.

In an inflationary economy it is impossible to float large public issues to absorb savings at interest rates the governments are willing to pay. Therefore, deficits are generally financed by borrowing from the central bank. Low interest rate policies, on the other hand, insure that a government deficit will be quickly translated into additional bank credit. And in all countries with severe inflation, government deficits have been large.

Why do these deficits exist and how can they be explained? It is frequently alleged in discussions of economic development that because a country is poor, deficit financing and hence inflation are necessary if the government is to provide those services and investments which will stimulate economic growth. This implies that the demand for public expenditures and investments is larger



**TABLE II**  
**MEASURES OF ECONOMIC GROWTH<sup>1</sup>**  
**Percent Average Annual Increase 1945-1955**

Country	Per Capita National Income	Capital Investment	Industrial Production	Food Production	Export Volume	Cost of Living
Argentina	1.7	5.5	3.8	1.9	-3.0	17.2
Cuba	1.5	3.1*	2.2	2.2	1.6	2.2
Mexico	2.5	7.2	3.8	3.8	8.5	9.0
Brazil	3.8	6.0	6.6	3.2	7.5	13.0
Dominican Rep.	4.8		7.2		8.0	2.6
Panama	-2.0	0.4				0.6
Chile	2.0	3.8	4.8	2.1	5.0	24.0
Ecuador	3.8*	4.8*	6.0*		9.4*	2.9
Peru	3.1	17.5	4.6*	4.0	8.2	12.5
Colombia	4.5	6.8	3.6*	2.8	1.0	6.8
Guatemala	8.5	10.8	2.2		-1.9	2.8
Venezuela	4.0	14.2	15.0		9.0	5.8

<sup>1</sup>Source: The Chase Manhattan Bank, Latin American Business Highlights

\*Figures available only for a part of period.

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than can possibly be met by conventional taxation. On the other hand, it has been argued at the same time that inflation is the cause of poverty in many countries. Though these statements are not wholly false, they are, to say the least, misleading as well as contradictory.

**NO INDICATOR.** With regard to the first argument, employing deficits for further development, it can of course be pointed out that many countries have worked out development programs without running large deficits. This is particularly true of Cuba, Mexico, Venezuela, El Salvador, Ecuador, Costa Rica and the Dominican Republic. On the other hand, in countries where development programs did cause inflation because of deficit financing, the social cost of this inflation in conjunction with the web of controls that usually accompanies it, must be weighed against the possible gain of the development program that causes it. It must also be kept in mind that in open economies deficits do not always create new resources. They simply divert them from other uses. The result is inflation which is really a form of taxation, shifting real resources from private to government use.

With reference to the second argument, alleging that inflation is responsible for general poverty and mal-distribution of income, the evidence is also meager, since it is well known that in many Latin American republics low living standards existed long before inflation began. Moreover, a great deal of economic growth has taken place in a context of inflation, as was elaborated above. It is difficult and almost impossible, therefore, to compare such two countries as Bolivia and Chile, both having rampant inflation. While the former has relatively few resources, difficult topography, a traditionally slow rate of growth and many other sociological and economic problems, the latter has relatively rich land and resources with a vigorous population and an historical record of substantial economic growth. It would indeed be impossible to relate their differing material progress to the factor of inflation alone.

From the foregoing it may be concluded that in Latin America the absence of inflation is no indicator of growth, nor is its presence, a sign of bankruptcy. What counts in the Latin American scene is the social and cultural background of each nation, the degree of government controls imposed, and the availability, quality, and quantity of resources, both material and human.

**OTHER DETERMINANTS.** The greater the supply and skill of labor, and of all types of natural resources and capital equipment, the higher will be the level of output, other circumstances being equal. Output will also be affected by the available techniques of production, which affect the nature of the capital equipment available, and the processes of production which are employed. Finally the general economic, political, and social environment will affect the efficiency of production and the level of output.

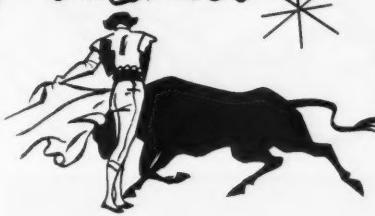
It must also be kept in mind that social relationships influence worker and employer morale, and that government controls may drastically reduce the efficiency of production. It might, of course, also increase it in certain cases. Over a period of time, therefore, the real level of income will depend primarily upon changes in these determinants, particularly the development of improved techniques, the introduction of better types of capital equipment, and the gaining of greater skill on the part of labor and management, among others.

That Latin America is determined to improve along all fronts simultaneously can best be illustrated by forecasting the development of a Latin American nation—Mexico, with a medium rate of inflation of 10 percent for 1956-57, and an average rate of inflation of 7.8 percent for the 1946-56 period. An estimate by the Economic Commission for Latin America is that by 1965 Mexican manufacturing production will have increased by 93 percent, agriculture by 55 percent, with yearly growth rates for cotton of 6 percent, coffee of 8 percent, and wheat of about 8 to 9 percent. Sulfuric acid production will rise 138 percent, iron and steel 177, and electric power 185. Oil production will rise 135 percent and durable consumers' goods by 273. Production and gross national product is presently expanding at twice the rate of population growth. Population in turn will double in twenty years.

Since such a long-term rate of growth of an inflationary Latin American country compares very favorably with the long run United States growth record of 3 percent a year, inflation can, therefore, really only be considered as the result of the many interacting developmental forces outlined above. The rate and degree of inflation cannot be used any longer as an accurate indicator of the lack of growth or growth potential, and is no real guide to the future development in Latin America or anywhere else in the world.

# Calendar of Festivals \*

If you are planning to travel in Latin America during October or November, you may want to time your trip to catch some of these gala events. Some dates may be subject to change, so please check them with your travel agent.



## OCTOBER

Every Sunday in October thousands of pilgrims gather at Penha (Rock), a suburb of Rio, to pay homage to Our Lady of the Rock. According to Seventeenth Century legend, a traveler who fell asleep at the base of the rock was saved from a vicious crocodile by the miraculous intercession of the Virgin. Her shrine is at the top, and 365 steps cut in the solid rock lead up to it. The climb begins in a square, crowded with stalls and food-and-drink bars.

Some of the pilgrims go on foot; others, in fulfillment of a pledge, make the ascent on their knees. Many carry candles or wax representations of parts of the body cured by the Virgin. Continuous Masses are held in the chapel. Afterward, the pilgrims adjourn to the hillside for singing and dancing, fireworks, ferris wheels, carousels and entertainment booths. The first Sunday in November is the street venders' day to enjoy themselves.

12—Discovery of America, or Columbus Day, generally known in Spanish America as Dia de la Raza (Day of the Race), symbolizing the countries' ties with Spain. Ceremonies of one sort or another are held and in a few countries, among them the Dominican Republic, it is a civic holiday with government and private offices closed. In Chile this day coincides with Spring Festival. There are parades of floats and masked balls. Students have special celebrations including coronation of a queen.

In Guayaquil, Ecuador, October 12 is known as Dia del Montuvio, or day of the coastal mixed-blood. A fiesta which attracts thousands of visitors is held near the Salt Estuary, an inlet of the Gulf of Guayaquil. It is primarily an equestrian festival, featuring rodeos and horse races. The men wear fine white shirts and trousers, large colored shawls, bright ponchos, wide leather belts and tremendous straw hats.

18-19-20—When the 1746 earthquake left much of Lima, Peru, in ruins, a wall on which a Christ on

the Cross had been painted remained unharmed. This is the origin of the solemn processions of the Lord of Miracles. The floats in this elaborate procession are of ornately worked silver, banked with flowers. Thousands of people, many wearing purple robes of the Brotherhood, form an escort. Incense is burned in silver censers. Prayers are intoned along the way, the balconies of houses are hung with embroidered banners, and flowers are strewn in the path of the marchers. Every church in the old part of the city is visited along a route that never changes.

21—Many legends surround the Black Christ of Portobello in Panama, honored at this annual fiesta. The life-size image of dark wood is said to have been washed ashore from the Caribbean several centuries ago, and to have saved the town from a cholera epidemic then raging on the isthmus. The festival begins at 6 p.m. with church services.

## NOVEMBER

1-2—All Saints' Day and All Souls' Day, legal holidays in some countries—Brazil, Haiti and others. They are of particular significance in the Indian villages of Bolivia, Ecuador, Guatemala and Mexico. Among the Bolivians the rituals are extremely solemn events; the Mexicans temper the days with humor—bread and candy in the shape of skulls, mock obituaries in the paper. At midnight of the first, in some villages, candle-lighted processions wend their way to the cemetery with offerings of food. Most impressive is at Janitzio Island in Lake Patzcuaro.

3—Independence Day — Panama (Secession from Colombia; November 28, freedom from Spain).

21—Festival of the Virgin of El Quinche, Ecuador. The most important religious holiday of the Ecuadorian Indians. Processions in the town of El Quinche (province of Pichincha) 31 miles northeast of Quito, the capital.

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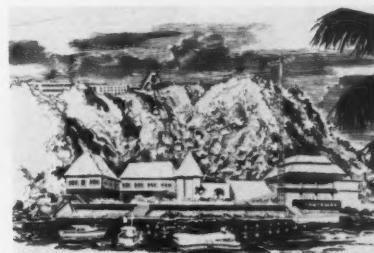
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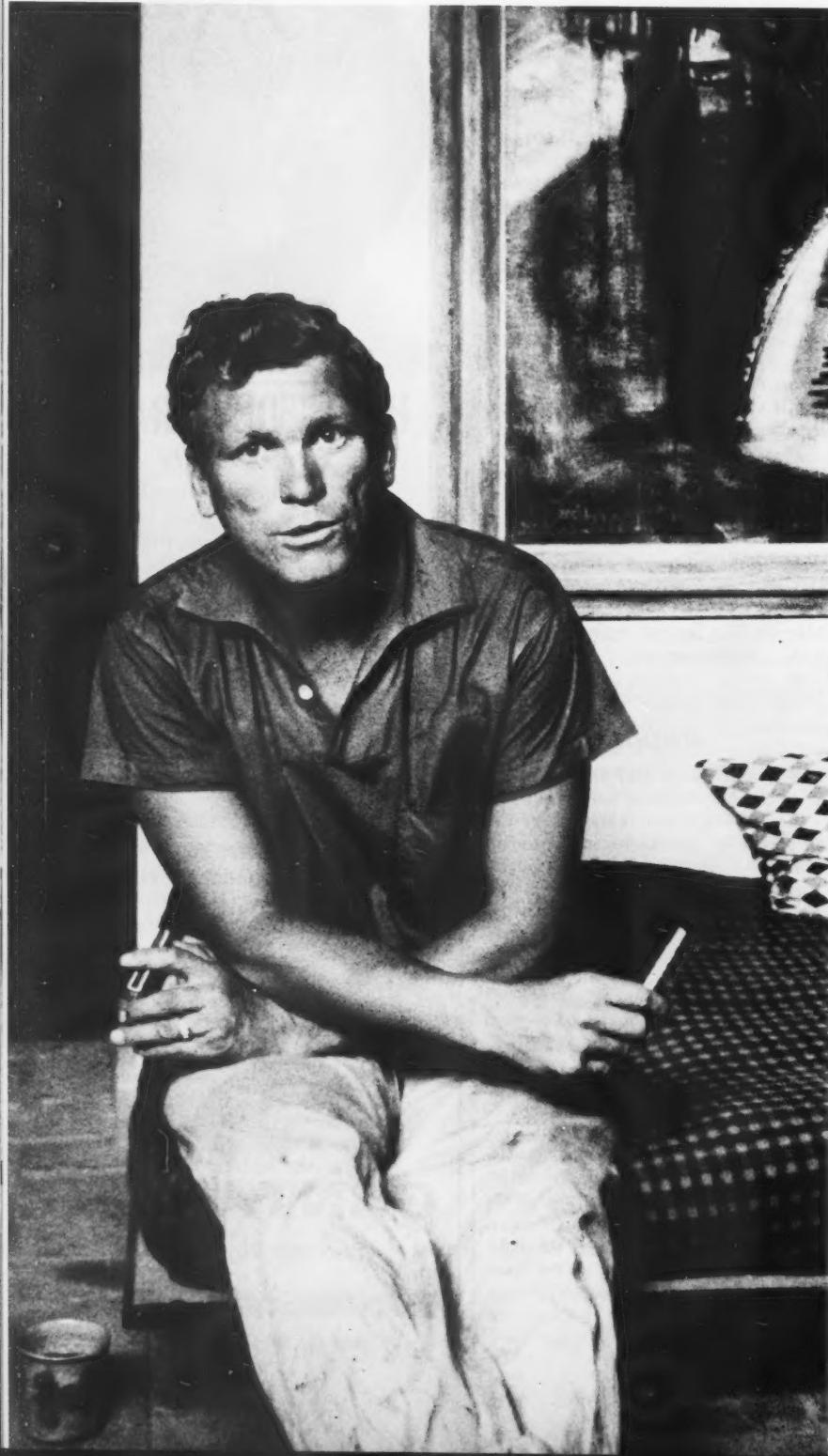


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# Ajijic...



Out of Mexico's second city, Guadalajara in the State of Jalisco, one may drive south on the broad, paved *Carretera a Chapala*, past the turnoff to the nearby pottery town of Tlaquepaque, past the city's modern airport, through fertile, green pasture lands and little farms, until a low range of mountains rise across the path of the highway.

Here, where the *Carretera* starts to climb into the hills, a lovely old *hacienda* stands off to the left of the road, and down to the right, tower the church steeples of an Indian village. The *hacienda* is surrounded by stately palms and in the summer it is grown over with the fuchsia-colored flowers of the bougainvillea. The *hacienda*, they say, is haunted.

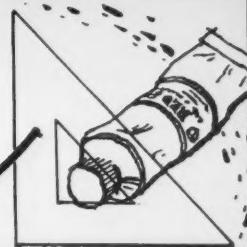
The *Carretera* takes a winding course through the hills beyond the *hacienda*, and all at once there appears on the other side of the mountain and far below, stretching out for 40 miles to the eastward like a great silver platter, Mexico's biggest inland lake—Chapala. And where the *Carretera* comes down to the lake, 35 miles south of Guadalajara, nestles the village of Chapala. Several miles farther around the lake to the west, where the mountains crowd in steeply, a second village clings to the shore between lake and hills, and this one bears the unlikely name—Ajijic.

The twin villages of Chapala and Ajijic are favorites of the North American expatriates who come to Mexico to live. Chapala is the bigger of the two, the busier, the more commercialized. Tourists flock to Chapala, and on the weekends the "Tapatias" from Guadalajara converge on the pleasant little town. The road comes down out of the hills and straight through the village to the lake front—or what once was a lake front, because Chapala is a lake fast drying up and its waters lie far out across a plain of marsh grass. At the turn-around at the end of the street, a concrete jetty extends far out across the sea of grass to a tower-house that once stood in the lake.

To the right of the jetty, a sandy beach curves around the village until it meets the stone walls of expensive villas. Above the beach is a sort of sidewalk café that does a good

*Architect Dimick . . . University City is great in overall concept*

# Chapala



and the reluctant "expatriates"

business on weekends, and the sand of the beach runs down into the marsh grass. The beach once was thronged with bathers, but now visitors stroll fully-clothed along the sand and children play in it, but it does not touch on the waters of Chapala. But here it is possible to arrange for fishing trips on the lake, and for boat cruises to the islands in the lake where quaint Indian fishermen spread their nets to dry in the sun.

**UP TO AJIJIC.** To go up the lake to Ajijic, one has only to turn west at the main intersection in the center of the village and take a paved street between walled villas that leads up past the Club de Monte Carlo, with its tennis courts, swimming pool and dining rooms, and out into the country. Early in the summer, before the rainy season, the hills above the lake are brown and dry, and children carrying long sticks swarm under the trees along the road, picking *vermoucheles*, a sort of sweet bean in a pod that grows in the trees. But later in the summer, the rains come with much thunder and flashing lightning, and overnight the hills turn lush and green and jungle-like.

Somewhere off the road along here, and down toward the shore, there is a manglar, or mango grove, which is a favorite Sunday picnic spot for Tapatias. For several miles, the road is unpaved and dusty, and then the traveler comes to the cobble streets of Ajijic. This village, like all Mexican villages, has a Roman Catholic Church and a central plaza with a bandstand in the center, and burros laze in the sunny streets. Ajijic is laid out in rectangular blocks with straight, narrow streets falling away toward the lake and climbing toward the base of the mountain. The streets are solidly lined with mud and stone walls, broken by painted doorways.

From the doorways, and the courtyards beyond, the passer-by hears floating out into the street snatches of conversation that are as apt to be carried on in English, as in the native Spanish language. The shaggy blond youth who backs up against an adobe wall to let your car pass may be from Kansas; the black-bearded one carrying an easel may very likely be



Artist Krebs . . . no expatriate



*Arte Contemporaneo gallery . . . on a lazy summer day a lone visitor*

from New York City. Ajijic is home to both of them now; in fact, Ajijic and neighboring Chapala are home to several hundred expatriates from the north.

The American colony that has settled, whether permanently or temporarily, along the north shore of Chapala may be divided into two general groups. There are the younger, Bohemian elements, and there are the older ones, who have sought out this peaceful beauty spot to retire and to stretch their savings, or pensions, in pleasant inactivity. Among this latter group, also, is a handful of wealthy elderly people to whom the low cost of living in the Chapala villages means very little, or nothing at all. To these people the attraction lies in the beauty of Chapala's shores, the quiet, unhurried life, after a lifetime of bustling activity, a chance to read or study or engage in some hobby, or merely to take life easy and look after their health, such as one former executive who has put in his own private spa with sulphur water from his own well.

Among this latter element there are some who either rent, buy or build comfortable, and sometimes elaborate homes in the villages along the lake, and there are others who prefer to live as simply and cheaply as their more Bohemian brothers. But the group maintains a country club with a nine hole golf course at Chapala.

**THE EXPATRIATES.** Even Among the older, more solid element of the colony, life is far from being a state of inactive vegetation. Most, actively engage in some pursuit that they didn't have time for in earlier years. Several have gone into business for themselves locally. One woman, who is an authoress and lives in a well-appointed home set amid acres of tropical garden that is a local tourist attraction, not only continues to write, but also runs a dress shop, builds and rents houses, and finds time to organize local charities.

Most popular pastime among the older set, as well as among the younger ones—the wealthy as well as those on an economy basis—is that

of entertaining, and visiting back and forth. With rum and brandy at a dollar a bottle, and with the native tequila even less than that, it is a pastime that all can afford to partake of. Most of the older group play bridge, and neighborly gossip is no less satisfying here than it was back home.

The younger group of "expatriates" (some abhor the term) includes serious writers and artists, and the usual run of would-be's, dilettantes, and just plain oddballs. In the Bohemian strata of local society are to be found some who sought out the shores of Chapala as a place to work at their art in uninterrupted peace. Others came because the low cost of living permits them to work in pleasant surroundings while stretching meager savings to cover the preparation of enough paintings for a one-man showing, or to finish writing a novel. Still others were attracted because they like the cultured atmosphere and artistic people, or the Bohemian way of life. A few, perhaps, have come to Chapala just to do

nothing at all, because it can be done relatively cheaply here.

But of the younger set, it is the serious young men and women who are the backbone of the colony. Without these creative "workers," men and women who come to Chapala's shores to do something, and who are doing something, the whole idea would lose its appeal to the others—to the hangers-on and the "just talkers"—and the expatriate colony would become a hollow meaningless mockery. Fortunately at Ajijic there are a number of "doers."

One such is goateed John Upton, writer, composer, self-styled inventor, who came here for "the freedom to train and enjoy my own mind." There is a young artist couple from New York who live in a modest native house, the walls of which he has frescoed, and which they rent for only \$5 a month, while he prepares a collection of paintings for a one-man showing when he returns to New York.

**THE BOHEMIANS.** Typical of the serious young men and women of the Bohemian set in the colony at Ajijic, are Jim and Donna Krebs. The Krebs, who are in their mid-twenties, came to Ajijic from the Pacific Northwest, where they had worked and saved enough money to get away and do some serious painting. They hail from Wichita, Kansas, originally, and Jim got his education in art at the University of Arizona, at Tucson. The Krebs' proudest possession is a towheaded little toddler, who would be going on two years old now.

Last spring, when the Krebs decided

to make their move, they packed up lock, stock and barrel, loaded everything into their Dodge Power Wagon and came to Mexico. When they found Ajijic they knew this was the spot to stop and stay. The Krebs rented a small house on a corner, just a block inland from Lake Chapala, for which they pay the equivalent of \$50 a month. The house has a long, narrow, high-ceilinged room with a fireplace at one end, which serves as combination living room and studio. It is simply furnished with a daybed, over which hangs a large painting that Jim did in San Francisco, and locally-made leather and wood furniture. There are two bedrooms, and a small, narrow kitchen that opens onto the patio. The Krebs usually dine on the patio, part of which is roofed over, and Jim does most of his painting here. The kitchen boasts both a range and a refrigerator (which Donna feels she needs because of the baby), luxuries not found in most of the expatriates' dwellings.

"The appliances," Jim says, "account for the relatively high rent. A place like this, without the refrigerator, and with the customary charcoal burner instead of the range, would rent for about \$30 a month here."

The Krebs indulge the inexpensive luxury of a maid, whom they pay 150 pesos (about \$12) a month. "We give the maid 15 pesos (\$1.20) a day to buy food with, and she does all the shopping," explains slender, dark-haired Donna Krebs. "We have been giving her one more peso a day for

*tortillas*. She brings us very good *tortillas*. But we have decided that is too expensive so we are cutting it out."

**THE PAINTERS.** In spite of the apparent low cost of living in the Ajijic colony, Jim Krebs thinks this aspect is highly overrated by recent magazine articles about Ajijic, unless, of course, one wants to "go native" all the way. "It costs us about \$200 a month to live here," Jim says. "We could live just as cheaply many places in the States if we wanted to live without some of the modern conveniences. Actually, what we are doing here is paying less for less. The important thing is, you can get away with it here without being looked askance at by the rest of local society."

Quiet, blond, good-natured Jim Krebs works hard at his painting, trying to accomplish as much as he can before their savings are exhausted and they have to return State-side. His paintings are based on realism, after an experiment with expressionism, but they are tempered with the abstract. "I felt that I was getting too far away from my subjects," Jim says. "I have been trying to get back more closely to my subject matter."

Surprisingly enough, and he says this is also true of a number of the artists who live in the colony, Jim Krebs spends very little time painting the unspoiled, picturesque beauties of Chapala's shores. Most of the paintings that he is doing now, are concerned with State-side subject matter, San Francisco, the Pacific Northwest. To him, Ajijic is

Dinner in the patio . . . cheap food but tough meat



Expatriate family Krebs and friend, Dimick (left) . . . a discussion of aesthetics





Visitor to the Krebs' home . . . architect Don Dimick



A quaint, quiet plaza



Artists' gallery at Ajijic

just an environment where he can work hard in peace and without interruption.

And even this latter is not easily achieved in the colony. "We have to watch ourselves constantly," Jim says, "those of us who came here to work seriously, or else we would be spending all our time down at the bar, just talking, or visiting, and not getting anything accomplished. It is an easy routine to lapse into." More difficult to adhere to is Jim's work schedule that he has set for himself.

A part of each day Jim devotes to tending the cooperative gallery, *Arte Contemporaneo*, a block from the Krebs house, where the local artists display their works for the benefit of the many North American tourists who visit Ajijic. Sometimes an artist will make a worthwhile sale and it will enable him to stay and work a little longer in his beloved Mexico.

**THE ENVIRONMENT.** Often at evening the expatriates ("We are not expatriates," Jim says. "The term has a bad connotation. Most of us

are here to work seriously.") will get together at the home of one of their number, or at a favorite local bar, to discuss aesthetics, or to bone up on world happenings, which are very remote to life in Ajijic. Rarely do they discuss their own work. Sometimes during the day friends will stop by the Krebs house to break up the work routine.

One such, who is a frequent and welcome caller at the Krebs home is Don Dimick, who is a young architect. Utah-born, New Yorker Dimick lives at Ajijic while waiting out a tax-imposed exile after a job in Greenland, before returning to the U. S. He takes advantage of his stay here to make frequent junkets about the country to study Mexican architecture, from the fine old colonial buildings of Morelia, to modern University City in the Capital.

"I think that University City, in its grand, overall concept, is one of the finest contemporary architectural achievements," Dimick observes, "but I think the detail work is poor, and I think that in, say another ten years, it will be falling

apart." Dimick sees the finest examples of Mexican residential architecture in Mexico City's exclusive El Pedregal District, in the lavabeds opposite University City.

Like the Krebs, Don Dimick pays \$50 a month for the apartment he rents in Ajijic, and it includes a swimming pool. Not all of the Bohemian element of the colony at Ajijic are poor. One who is not, is Margaret North de Butterlin, who is both rich and fashionable. She maintains a beautiful home filled with *objets d'art* collected in art expatriate colonies all over the world. She buys paintings and encourages the local artists, and so contributes a valuable effort to the achievements of the colony's serious aspirations.

So long as there are artists and lovers of the arts, there will continue to be expatriates, by whatever name. And they will seek a working environment in the aesthetic company of others like themselves, in places like Chapala and Ajijic, which offer a balance between cheap cost of living and comfort, civilization and unspoiled surroundings.

# BRAZIL



**BRAZIL'S  
NEWEST and FINEST**  
**in Rio, The Hotel  
EXCELSIOR  
COPACABANA**  
**and in São Paulo . . .**  
**The HOTEL JARAGUÁ**



HOTEL JARAGUÁ

# Books

## Private Investment: The Key to International Industrial Development

Edited by James Daniel  
McGraw-Hill Book Company, Inc.  
New York, N.Y.  
282 pages, \$5.00

The thesis to this volume is simply, as the title suggests, that private investment from the more advanced countries can contribute to the economic growth of economically underdeveloped nations. But what is perhaps more important is that this is also the thesis of numerous businessmen, leaders of industry, and some government officials who gathered at a conference in San Francisco in October, 1957, to discuss ways to foster economic growth in these less developed areas. Their discussions make up this book.

More than 600 of these world business leaders attended the San Francisco meeting. Sponsored by

Time-Life International and the Stanford Research Institute, discussions spotlighted the economic stagnation in large sections of the world. Included prominently in the talks were careful analyses of conditions in Latin America, particularly with reference to economic growth in Mexico and Puerto Rico.

In both cases, speakers endeavored to show how these two areas have overcome many of the sharp problems attending their economic development. But they were careful to indicate present and potential danger in the picture.

In the case of Mexico, speakers and panelists pointed up Mexico's dependence upon foreign capital—which for example amounted to nearly 70 per cent of all new investment in 1951. There was a conscious effort to refrain from glib generalizations about this rapid growth south of the border. Dr. Kingsley Davis, the University of California's population expert, carefully analyzed some of the population pressures besetting Mexico, which have caused "the rise in per capita income to be much slower than the rise in national income."

But by far the most important part of the conference for those interested in Latin American affairs—as reported in the book—was the section on

Puerto Rico. This island's business and political leaders, after an unhappy flirtation with state-ownership of business, came to realize that private business could enormously accelerate its economic development.

Today this island commonwealth is bustling with new factories—attesting the fact that private enterprise can work wonders, given the proper direction. Teodoro Moscoso, the island's able Economic Development Administrator, has given here some solid advice that other areas of South America could easily adapt to their own situations. Not all that Puerto Rico has tried would necessarily work in each country. But the Moscoso-sponsored "Operation Bootstrap" has definite signposts for the rest of Latin America. For example the controversial idea of tax exemption, Señor Moscoso believes, is "the most effective and least costly" step that can be taken to attract foreign business money and knowhow.

One could wish that this book dealt more with Latin America, for here is the heaviest concentration of American enterprise abroad. But what is contained in the book is worthwhile.

James Nelson Goodsell  
Staff Writer  
*The Christian Science Monitor*  
Boston, Mass.

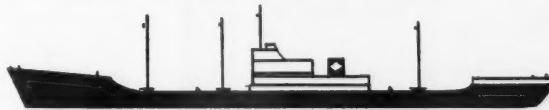
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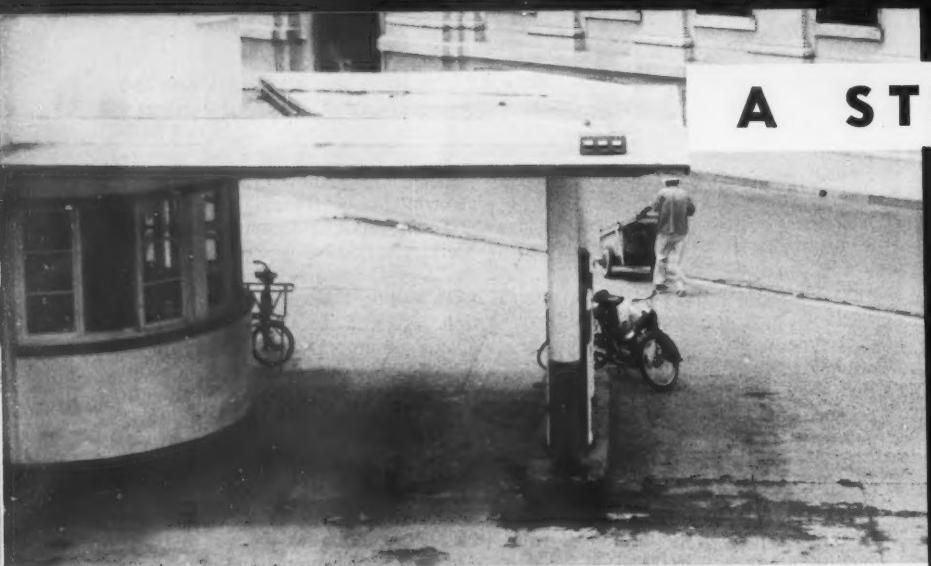
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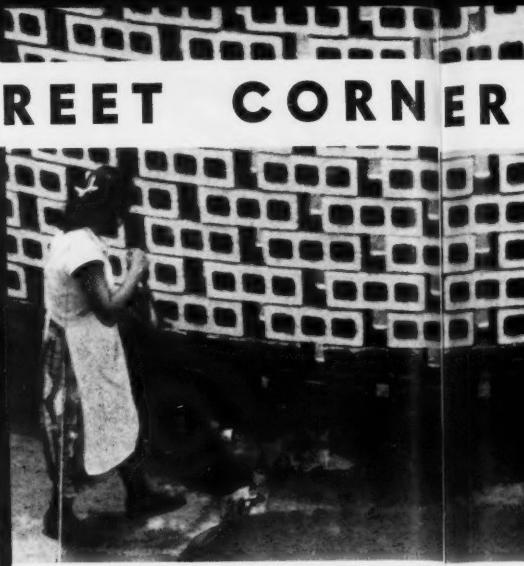
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# A STREET CORNER



On a street corner in Managua . . . Estacion Victoria



In the heat of high noon . . . time to



Among the pots and pans . . . banana leaves to eat off



Through the cool morning hours the customers come

On a street corner in downtown Managua, Nicaragua, across from El Banco de la Republica, stands Estacion Victoria. Estacion Victoria is a service station, at first glance not unlike so many others throughout the Americas. But to the idle observer from across the way, this corner station soon reveals its many-faceted role in the scheme of Managuan life.

During the warm Nicaraguan night Estacion Victoria has slept quietly on the deserted street corner. But with the first light of dawn it comes slowly and reluctantly to life. The station attendants arrive and prepare for a busy day.

Then, one by one, the privately owned busses that ply the city streets begin to roll into the station, their engines still cold and sputtering from a night of inactivity. While the attendants service the vehicles with gas and oil, the drivers take advantage of the station's only water faucet to perform a dual wash job—their busses and their own faces. This done, they roar off to their respective routes.

Next, up to the station saunters a tattered little boy of the streets. He too goes first to the water faucet to douse his face, then into the station to pick up the meager equipment of his own private enterprise—a shoe-shine box—which he had sequestered there the night before. He departs for his day's work in the city streets.

From down the street now come two Indian women. In large, flat pans upon their heads they carry an assortment of pots and other utensils. They deposit their burdens beside a wall of honeycombed concrete blocks, at the edge of the station's driveway. They enter the station and emerge with a crude bench and two tables. They set up their paraphernalia be-

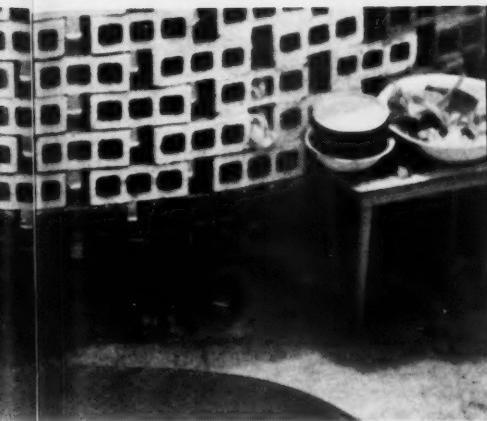
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The morn be s the desci high day, The ter a return and gile .

W the s tains depo One the The ants and toria

B mon

# ON THE STREET IN MANAGUA



... time to sweep up and go home



Back to the station repository go the tables

side the wall along the driveway, and they are in business for themselves.

One by one, and in groups, the early morning customers arrive. From one of the pots the Indian women serve barley water (for nourishment) rose-colored and flavored with berry juices. For this the entrepreneurs have four glasses. The glasses are wiped out and used over and over again. If there are more than four customers at a time they have to wait their turn. Neither are there plates or knives and forks and spoons. But from other pots, the women serve their own concoctions of native dishes, piquant with herb seasoning, and the customers eat their food from banana leaves, of which the stand has an abundant and fresh supply.

Throughout the cool Managua morning cars roll into the station to be serviced, and their drivers visit the little stand. Passers-by of every description stop for refreshments. At high noon, in the heat of a tropical day, business comes to a standstill. The Indian women sweep up the litter around their stand. The tables are returned to the little room in the station. The two women place their pots and pans upon their heads and straggle off down the street, one behind the other.

When the hot afternoon ends and the sun seeks refuge behind the mountains, the shoeshine boy returns to deposit his equipment in the station. One by one the busses roll back into the parking stalls beside the station. The last light is dimmed. The attendants close up and go home. Darkness and silence settles over Estacion Victoria.

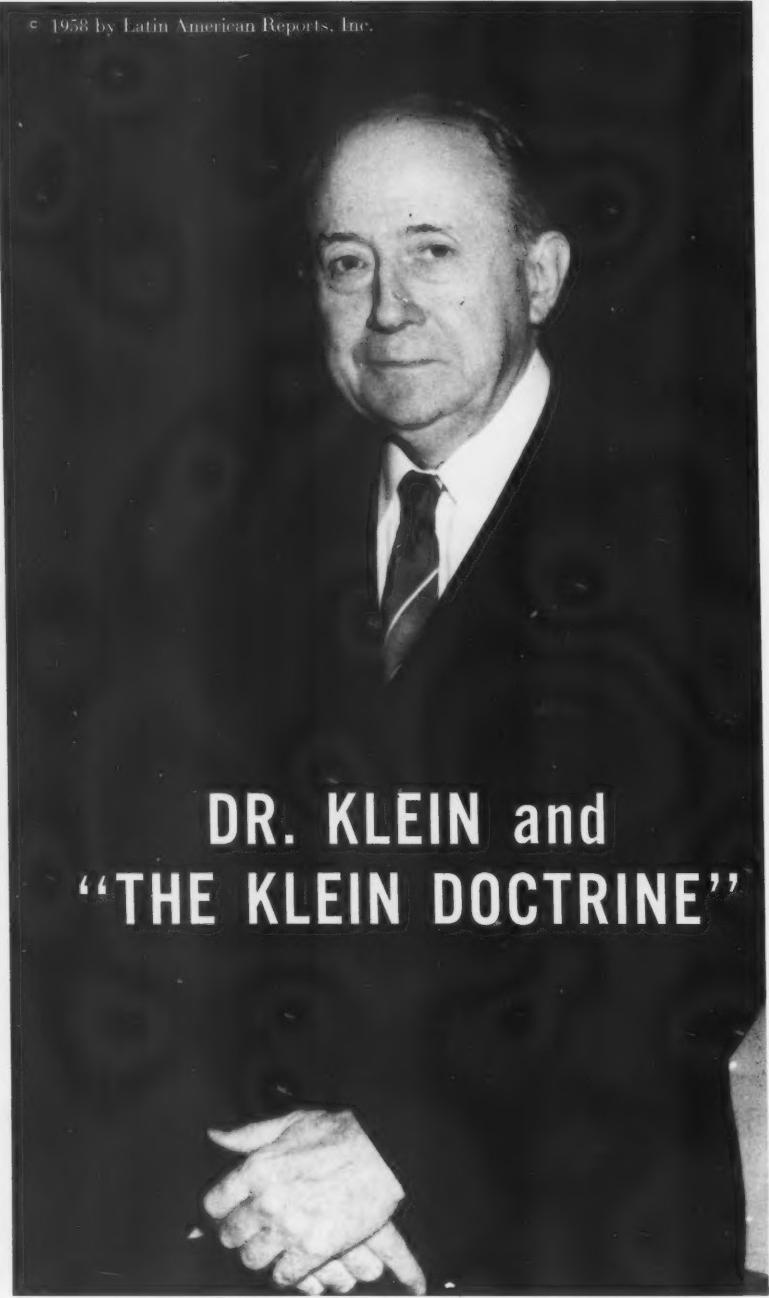
But there will be another day, and more business for the entrepreneurs—*mañana*.



The business day over



... it's home for the entrepreneurs



## DR. KLEIN and “THE KLEIN DOCTRINE”

*Private enterprise prescription for  
sick national economies*

The U.S. government still insists that the way to win friends abroad is to pour out more of the taxpayers' money in foreign aid. Nevertheless, there flourishes in Washington an economist and management consultant who sends out aid missions that really make friends for the American way

of free enterprise by curing the economic ills of other nations. He doesn't cost the taxpayer a cent, and his methods are standing the test of time.

“Countries all over the world are still sick from wartime and postwar excesses, costly statism and gigantic waste,” explains balding, peppery

Julius Klein, former chief of the U.S. Bureau of Foreign and Domestic Commerce and now head of Klein & Saks, which for a generation has served as business doctor to American industries and foreign governments. “They'll never get well if they rely on gifts from abroad. That usually just perpetuates the abuses. What they really require is tough economic reform.” A Harvard economist turned management consultant, Dr. Klein can back up his statements.

Called on to prescribe prosperity for Peru nine years ago, for instance, Klein found a welfare state with private enterprise hamstrung by so many controls and taxes that the economy was stagnating. There were controls over prices, exports, imports, exchange. Practically every phase of economic life was harassed by an avaricious bureaucracy.

Klein noted that the butcher shops all over Peru were empty; there was so little relation between the posted government prices and production costs that meat was either hoarded or sold only on the black market.

“Take off your meat price controls immediately,” he demanded.

When this was finally done over protests of the bureaucracy, the cattle that growers had been holding back started coming down to the shops in droves. Prices fell, instead of skyrocketing as the proponents of state control had predicted. Meat again became part of the national diet, and stock farmers had cash to spend.

**FREEING AGRICULTURE.** “Now you see how controls hinder Peru,” Klein explained. “Now lift price controls from everything else. Take off import restrictions. End artificially rigged exchange rates on your currency. Encourage investors abroad to put money into worthwhile business ventures. Eliminate barriers that prevent them from exporting their profits. Do these things and free enterprise will enable Peru to rise to heights impossible in any socialistic state.”

In time, Peru did all that Klein asked, and the biggest boom in its history gradually got under way. It was carried forward with hard advice and expert knowhow instead of the crash programs and big missions that cause criticism of our International Cooperation Administration.

High amid 12,000-foot peaks at Cusco, 350 miles from the capital, Inca descendants reacted to demands for a bigger food supply by agitating for the government to take over a large part of farm management and responsibility. Klein hurried there with the approval of the President.

He convinced them that they needed instead, a low interest agricultural banking system that could finance crops and provide movable pools of machinery to be shared by the farmers through cooperatives. Then from California's Bank of America, an organization already experienced in dealing with persons of Spanish background, he borrowed an executive who in less than a year transformed a semi-dormant government institution into a thriving development banking chain with young Peruvians already in training to take over. Meanwhile, to get men who would teach new methods to the farmers, Klein, a Lutheran, relied on a doubled force of missionaries sent from the United States by the Catholic Maryknoll Fathers. "They'll understand the people better than more bureaucrats will," he said.

Successful? Cattle and sheep production increased. So did corn, wheat, potatoes, sugar. Two years after having to import 40,000 tons of rice, Peru satisfied its own needs and exported 30,000 tons. The agricultural bank has evolved into the country's largest, with 70 branches and its own agricultural experts to better serve its important customers—the men with dirt on their boots who want to better their own lot.

Klein's mission modernized Peru's government along lines developed for the United States by the Hoover Commissions. He brought in business machines, snuffed out superfluous office-holders, established a fair tax structure. Then, as all this made for a climate in which industry could grow, Klein looked around for investors. The way was paved for the Southern Peru Copper Corp., a U. S. combine, to spend \$200,000,000 on a mining development, which has thus far provided jobs for 9,000 persons.

Under the direction of Herbert Hoover, Jr., one of the world's leading geophysical engineers, a new oil exploration law was drawn up which brought in 14 new companies to invest large sums in petroleum development. Instead of resenting this competition, Standard of New Jersey, which previously had the field pretty much to itself, was so encouraged by the Klein reforms that it launched a five-year \$40,000,000 development program of its own. A \$25,000,000 electric power project also was started. Other millions went into new fishing, food processing, tire, paper, paint, textiles, chemicals and leather industries.

**KLEIN DOCTRINE.** The Klein mission left Peru in 1955. During its six years there, investments by citizens of

the United States, Canada, Peru and Europe just about doubled the value of the country's wealth-producing industries. Real national income in the same period rose nearly 50 percent. Jobs and better living conditions were created for tens of thousands of persons, not only in Peru but in every country which contributed to the development.

The reforms have not disappeared despite a new regime and attempts to reverse certain phases of the program. In spite of the grave declines in copper and zinc prices, Peru is one of the few countries of the world that have abandoned most of the post-war controls of exchange, exports and imports. Peruvian policies toward foreign investment are still recognized as among the most liberal in Latin America.

What Klein stands for is old-fashioned American enterprise and individualism with modern responsibilities. Peruvians have a name for it . . . "The Klein Doctrine." Their government has given him a decoration—The Order of the Sun. Other governments—Brazil, Venezuela, Chile and Guatemala—have sought his aid.

"A country can follow our advice and get well because we answer to it, and to no one else," Klein explains. "U. S. federal aid officials can't propose such drastic remedies without being resented as agents of a foreign power interfering with somebody else's government. Their only alternative can be to make the patient comfortable with expensive gifts and services."

Back at the outset of World War I, President Wilson borrowed young Professor Klein from Harvard to establish a Latin American Division in the Department of Commerce and later set up a U. S. commercial attaché service in South America. In Chile, his first stop, he found rich agricultural resources going to waste. He stayed three months putting to use the methods for which he is now famous.

"Why not set up a canning industry and market your leftover fruit crops that now rot away?" he urged. When Chileans said they lacked funds and experience, he had our Department of Commerce send down a U. S. firm that invested its money and knowledge with them. He had California wine experts of Spanish background brought in to help Chilean growers improve their product and make it famous among connoisseurs everywhere.

Klein's work was so spectacular that he was borrowed again from Harvard in 1921, this time to take over the Department of Commerce's Bureau of Foreign and Domestic

Commerce for Secretary Herbert Hoover and build it into a powerful instrument of mutual international assistance.

**IN GOVERNMENT.** Through all this the Kleins rented a modest two-bedroom apartment in Washington. They didn't move when Hoover, on becoming President, made Klein an Assistant Secretary of Commerce and top professional administrator of the department. One of the most unpretentious men in all Washington, Klein gave away his five-year-old Chrysler because he found little need for it. He bought a new suit only because his wife finally handed his threadbare old clothing to the janitor.

Klein oversaw the sending of commercial attachés all over the world from the Department of Commerce, but they were unlike too many of today's diplomats and ICA representatives who may stay only briefly at a post, live aloofly and rarely bother to learn the language. Klein's associates settled down for years as part of the community. Their instructions were not just to seek customers for American wares, but to help these countries develop stable economies with the assistance of American capital and industrial experience.

When the functions of Klein's beloved trade ambassadors were taken over by State Department diplomats with the end of the Hoover Administration, Klein formed the present partnership firm with Julien M. Saks, a rising young expert in distribution and finance, and began showing some of America's biggest industries the way to healthy profits at home and abroad by modernizing their operations and opening new markets. When the call came to give to nations the same sort of economic guidance, he was prepared.

Klein's pet abomination is the traveling survey team of bankers and efficiency engineers who make a quick visit to a country, hand down a Five Year Plan neatly blueprinting all the needs of a new era from railroads to irrigation, then disappear without responsibility for making the program work. In 1953, Chilean officials showed Klein six volumes of multi-million-dollar proposals as put together by three such missions.

"Which of the conflicting recommendations should we carry out?" he was asked.

"Hold them all up," he advised. "For decades Chile has been spending more than it has taken in to finance a welfare state that can't endure. You've underwritten grandiose social security and defense deficits with printing press money till you

have a ruinous inflation. You need strong medicine to get well, but you'll have to be really sick before you're willing to swallow mine."

**DOCTOR FOR THE SICK.** Two years later, in 1955, Chile was that sick; the emergency call came for Dr. Klein. Inflation was so out of hand that the cost of living had almost doubled in a single year. The welter of social security devices was so fantastic that a man might theoretically retire at full pay at age 29—except that there weren't funds to pay the bill. State-owned railroads were handing over 60 percent of their payroll to their retired executives. The sale of four or five food items was monopolized by the state, with inexcusable drains on the treasury.

Klein began applying his basic remedies: balancing the budget, ending paralyzing restrictions on investment capital, removing stifling bureaucratic controls, abolishing government monopolies, establishing a more equitable tax structure, and, above all, encouraging private enterprise, both national and foreign.

To head the battle to straighten out Chile's finances, Klein put his finger on such men as J. Prescott Carter, who had just retired as a key executive in the Latin American operations of New York's National City Bank. At the Federal Reserve Bank in New York he found two naturalized Americans from Germany and Austria who were among the world's leading experts on problems of exchange and inflation.

Chilean promoters who made quick

money out of easy loans opposed the mission's demand for higher interest rates. Communists have tried to slow down copper production. Student agitators have paraded with "Klein Go Home" signs. There have recently been serious setbacks in the recovery rate, notably because of the collapse of copper prices. Nevertheless, with the continued backing of the Chilean President, the Klein team has been able to put the brakes on the country's feverish increases in living costs.

**OF PRIVATE ENTERPRISE.** "Chile isn't well yet," Klein says, "but it is a lot less sick than it was. If the people can endure a little while longer the inevitable aftermath of critical surgery, we'll be able to recommend that various American companies join forces with national partners in rebuilding the Chilean economy. They are eager to help develop Chile's abundant resources and have confidence in the repeatedly-tested courage and resilience of the Chilean people. We must make sure first, however, that the reforms in progress are going to stick and are not prematurely discarded as mere 'emergency' measures."

Three years ago the U. S. government, already spending \$19,000,000 a year on aid for Guatemala, hired Klein & Saks to provide that country with the immediate advice and guidance needed to attain a balanced budget and stable government. And Guatemala has since found the money to hire Klein and Saks directly.

"We'll be much more valuable from now on," Klein believes. He is convinced that Guatemala can soon be-

come a progressive, self sustaining country, with a balanced economy and a tapering off of large-scale emergency relief aid. The Bank of America, largest in the world, has established in Guatemala its first Latin American branch; it will have an important part in financing Guatemala's new industrial, mining, forestry, housing and farm expansion plans.

Does Dr. Klein believe that the ideas he is proving out could be put to greater use around the world? Definitely. Because of emphasis on U. S. official gifts and aid, he says, the public isn't generally aware that American private enterprises are contributing much more than our government is, to economic development abroad. They are producing nearly five billion dollars per year of goods and services in Latin America alone, bringing those countries a billion dollars a year of foreign exchange. The American firms pay a billion dollars a year of taxes and royalties to the governments there—15 percent of all revenues of the Latin American governments. They pay another billion a year in wages to 600,000 Latin American employes. These industries transfer skills to local populations.

"Private enterprise could do a lot more," says Klein, "if our government gave it stronger encouragement as a way of helping the less developed countries to help themselves instead of making federal aid spending an end in itself. Only enlightened private enterprise can produce the kind of healthy economy in which all the people have a chance to improve their well-being."

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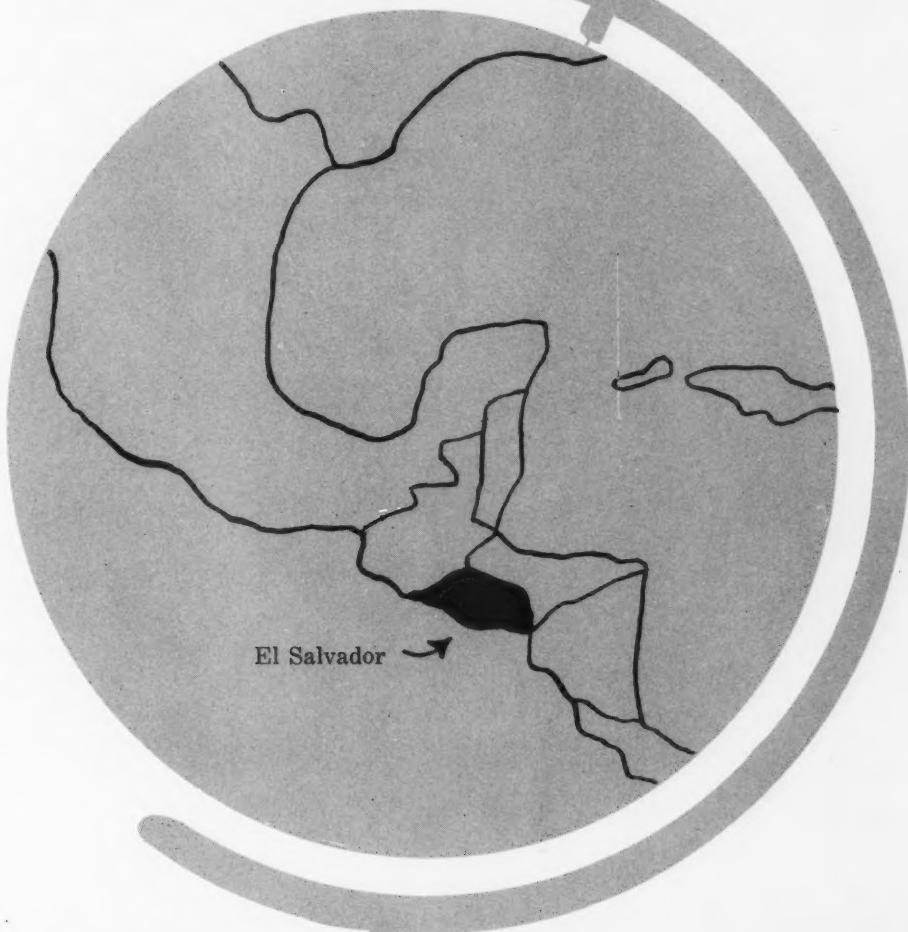
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Fishing is great in Guatemala. Game fish are plentiful in rivers—tarpon, snook and many others, some of them weighing as much as 900 pounds. Specialized personnel always are available to serve visitors as guides to the more accessible spots.



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Among the most popular sports in Guatemala are hunting and fishing. Only recently, however, have they been open to tourists on a regular basis. Guatemala today has specialized personnel to guide visitors to the proper places.

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Hunting the Guatemala jaguar is exciting. In the photo above, Oscar Dubois and his wife, Connie, pose beside a beautiful, 234 pound specimen they bagged. Excellent guides are always at the visitor's orders.

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